

Message Text

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PAGE 01 BRUSSE 14452 01 OF 04 251804Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NEA-10 NSAE-00
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FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC IMMEDIATE 8050
INFO ALL EC CAPITALS
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E.O. 11652: N/A
TAGS: EEC, ECIN
SUBJ: EC FINANCE COUNCIL MEETING, JULY 24, 1978

REF: (A) BRUSSELS 12159 (B) 77 EC BRUSSELS 5087

1. SUMMARY. AS EXPECTED, JULY 24 EC FINANCE COUNCIL
DEVOTED MOST OF ITS TIME TO CONSIDERATION OF EUROPEAN
MONETARY SYSTEM (EMS) AS PROPOSED AT BREMEN EUROPEAN
COUNCIL. CONTRARY TO SOME EXPECTATIONS, HOWEVER, THE
MINISTERS DID NOT ATTEMPT TO IRON OUT ANY OF THEIR DIF-
FERENCES ON THE FRANCO-GERMAN SCHEME BUT, IN A LOW KEY
AND ESSENTIALLY POSITIVE MANNER, SIMPLY DEFINED ISSUES
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PAGE 02 BRUSSE 14452 01 OF 04 251804Z

AND AREAS OF DISAGREEMENT WITHIN THE SCHEME WHICH WOULD
REQUIRE FURTHER STUDY. NO MEMBER INDICATED ANY RESERVE
ON THE GENERAL SCHEME IN PRINCIPLE. THE EC MONETARY
COMMITTEE, THE COMMITTEE OF CENTRAL BANK GOVERNORS AND
THE ECONOMIC POLICY COMMITTEE WERE ALL ASKED TO STUDY THE
ISSUES, AND A GROUP OF EXPERTS HAS BEEN CONSTITUTED TO
WORK THROUGH AUGUST ON DETAILS. THOUGH SOME LOCAL OB-

SERVERS DOUBT IT CAN BE MET, A STRICT TIMETABLE FOR REPORTING RESULTS OF THE STUDIES WAS ESTABLISHED IN HOPES OF MEETING THE OCTOBER 31 DEADLINE SET AT BREMEN. THE FINANCE COUNCIL, INDICATING ITS KEEN INTEREST IN THE COMMITTEES' STUDIES, HAS MANDATED A MID-SEPTEMBER PROGRESS REPORT AND A MID-OCTOBER FINAL REPORT TO ENABLE IT TO CONSIDER THE RESULTS IN TIME TO MAKE RECOMMENDATIONS FOR THE DECEMBER EUROPEAN SUMMIT. THE MINISTERS ALSO BRIEFLY DISCUSSED PUBLIC BUDGET GUIDELINES AS RELATED TO THE COMMON ECONOMIC STRATEGY, LOAN POLICIES FOR ITALY, AND APPLICATION OF THE EUROPEAN UNIT OF ACCOUNT (EUA) TO ACTS TAKEN BY COMMUNITY INSTITUTIONS. MINISTERS WERE DEBRIEFED ON THE BONN SUMMIT BY COUNCIL PRESIDENT, MATTHOFFER, GERMAN MINISTER OF FINANCE, WITH COMMISSION VICE PRESIDENT ORTOLI JOINING THE DISCUSSION. END SUMMARY.

2. ALTHOUGH COUNCIL DISCUSSION ON EMS WAS RESTRICTED, INFORMATION AVAILABLE ON THE DEBATES AND THE TENOR OF PRESS BRIEFINGS SUBSEQUENT TO THE MEETING INDICATE THE DISCUSSIONS WERE LOW-KEY AND FAR LESS DIFFICULT THAN HAD BEEN EXPECTED. NO FIRM SUBSTANTIVE DECISIONS ON EMS WERE TAKEN BY THE COUNCIL WHICH INSTEAD, FOLLOWING THE LEAD OF THE GERMAN PRESIDENCY, CONCENTRATED ON ENUMERATING A SERIES OF QUESTIONS AND ISSUES TO BE STUDIED BY THE MONETARY COMMITTEE AND THE COMMITTEE OF CENTRAL BANK

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PAGE 03 BRUSSE 14452 01 OF 04 251804Z

GOVERNORS. THE COUNCIL AGREED THAT THE STUDIES WOULD BE UNDERTAKEN ON THREE BASES:

- THE ANNEX TO THE CONCLUSIONS OF THE BREMEN COUNCIL
- THE QUESTIONS AND ISSUES POSED BY THIS FINANCE COUNCIL . D
- THE ESSENTIAL POINTS ON MONETARY REFORM ELABORATED BY THE JUNE 19 FINANCE COUNCIL (REF A).

IN EFFECT MANDATING WORK OVER THE SACRED AUGUST HOLIDAY BREAK, THE COUNCIL REQUESTED THE COMMITTEES TO PREPARE THEIR FIRST REPORTS FOR COUNCIL CONSIDERATION AT ITS SEPTEMBER 18 MEETING AND REQUESTED A SECOND REPORT BY OCTOBER 23 IN ORDER TO ENABLE THE COUNCIL TO PREPARE SUBSTANTIVE RECOMMENDATIONS TO THE DECEMBER EUROPEAN SUMMIT. AN OFFICIAL COMMISSION SPOKESMAN EXPRESSED DOUBT THAT SUCH A RIGID TIMETABLE ON SO COMPLICATED AN ISSUE COULD BE MET.

3. IN HIS POST-COUNCIL PRESS BRIEFING, U.K. CHANCELLOR OF THE EXCHEQUER HEALEY CHARACTERIZED THE DISCUSSIONS AS SATISFACTORY AND WAS PLEASED THAT THE COUNCIL'S MANDATE

TO THE VARIOUS COMMITTEES REQUIRED THEM TO TAKE NOTE OF THE JUNE 19 FINANCE COUNCIL DELIBERATIONS. HEALEY EMPHASIZED THE IMPORTANCE OF EXPERT LEVEL STUDIES (SEE PARA 10 BELOW) AND THE DESIRE OF THE COUNCIL TO KEEP IN "CLOSE TOUCH" WITH THE PROGRESS OF THE STUDIES. HE SAID THAT THE SEPTEMBER 19 COUNCIL WOULD BE LONG AND DIFFICULT, INDICATING THAT THE REAL CLASH OF NATIONAL INTERESTS, AVOIDED AT THIS MEETING, WOULD LIKELY BEGIN THEN. HEALEY NOTED FOUR AREAS OF INQUIRY FOR THE COMMITTEES WHICH WERE OF PARTICULAR CONCERN TO THE U.K.:

1) WHAT WOULD BE THE NATURE OF THE NUMERAIRE TO BE USED FOR DETERMINING CURRENCY RELATIONSHIPS WITHIN THE EC? ALTHOUGH HEALEY SAID THE GERMANS PREFER CENTRAL RATES WITH LIMITED OFFICIAL USE

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PAGE 04 BRUSSE 14452 01 OF 04 251804Z

RIGID PARITIES ALONG THE LINES OF THE EXISTING SNAKE, THE U.K. AND "A GREAT MAJORITY" OF THE COUNCIL WANT AN EUA-BASED BASKET, WHICH WOULD BE RENAMED THE EUROPEAN CURRENCY UNIT (ECU). THIS LATTER, HE SAID, BETTER LENT ITSELF TO SYMMETRY OF OBLIGATIONS THAN THE EXISTING SNAKE SYSTEM WHICH HE LIKENED TO A MODIFIED DM ZONE. PRESS REPORTS INDICATE, HOWEVER, THAT ONLY ITALY, IRELAND AND THE U.K. HAD STRONGLY SUPPORTED THE ECU AS NUMERAIRE.

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PAGE 01 BRUSSE 14452 02 OF 04 251812Z
ACTION EUR-12

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2) WHAT WOULD BE THE RULES AND PROCEDURES FOR INTERVENTION? HEALEY NOTED THAT THIS WAS A DIFFICULT AREA FOR THE EXPERTS AS IT POSED THE FOLLOWING DILEMMA: IF LARGER COUNTRIES DO NOT INTERVENE VIS-A-VIS THIRD COUNTRY CURRENCIES, ESPECIALLY THE DOLLAR, THEN SMALLER COUNTRIES MIGHT BE FORCED EITHER INTO DEVALUATION OR DEFLATION IN ORDER TO STAY IN THE SYSTEM, WHILE IF LARGER COUNTRIES INTERVENE STRONGLY THE INCREASE IN MONEY SUPPLY MIGHT FEED INFLATION. THE QUESTION IS HOW TO STRIKE A BALANCE.

3) WHAT WOULD BE THE SIZE AND COMPOSITION OF FUNDS AVAILABLE FOR INTERVENTION? HEALEY NOTED THAT THE NATURE

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PAGE 02 BRUSSE 14452 02 OF 04 251812Z

OF THE POOL WAS STILL VERY MUCH UP IN THE AIR AND THAT HE, ALONG WITH MANY OTHERS, HAD BEEN SURPRISED TO LEARN DURING THE COUNCIL THAT THE GERMANS WERE NOT COMMITTED TO POOLING. HE REFERRED TO BUNDERSBANK CONCERN OF LEGAL IMPEDIMENTS TO THE PHYSICAL TRANSFER OF RESERVES. IF THAT CONCERN MEANT, THE CHANCELLOR STATED, THAT THE GERMANS WANTED AN IMF-LIKE ARRANGEMENT WHICH ENTAILED SUBSTANTIAL CONDITIONALITY FOR SHORT-TERM CREDIT, THEN IT REPRESENTED NO GREAT INCREASE IN EUROPEAN RESERVES.

4) WHAT WOULD BE THE RELATION TO THIRD COUNTRIES?
HEALEY INFORMED THE PRESS THAT ALL MEMBERS WERE AGREED THAT THE U.S. AND JAPAN SHOULD BE KEPT INFORMED OF THE EC'S THINKING BUT THAT THE EC FELT NO OBLIGATION TO SECURE U.S. AND JAPANESE AGREEMENT TO ANY SCHEME.

4. HEALEY SAID THAT THE COUNCIL HAD UNANIMOUSLY AGREED AT U.K., ITALIAN AND IRISH INSISTENCE, THAT STUDIES ON RESOURCE TRANSFERS SHOULD BE "CONCURRENTLY" CARRIED OUT BY THE ECONOMIC POLICY COMMITTEE WHICH WOULD REPORT TO COREPER. TERMS OF REFERENCE FOR THE STUDIES ARE TO BE ESTABLISHED BY COREPER AT ITS JULY 27 MEETING. HEALEY SAID THESE STUDIES NEED TO GO ON AT THE SAME TIME AS THOSE ON MONETARY REFORM, BUT THAT, DEPENDING ON THE NATURE OF AN EVENTUAL EMS, IMPLEMENTATION OF RESOURCE TRANSFERS

NEED NOT NECESSARILY OCCUR PRIOR TO OR EVEN SIMULTANEOUSLY
WITH ESTABLISHMENT OF EMS.

5. AN IRISH PROPOSAL, SHOWN TO MISSION OFFICER, CALLED
FOR RECOMMENDATIONS ON THE NATURE AND SCALE OF MEASURES
NECESSARY TO STRENGTHEN THE ECONOMIES OF POORER MEMBER
STATES TO BE MADE TO THE COUNCIL BY OCTOBER 31, THE SAME
DATE EMS PROPOSALS ARE DUE. THESE MEASURES WERE TO
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PAGE 03 BRUSSE 14452 02 OF 04 251812Z

INCLUDE EC FINANCIAL PROVISIONS TO AID PUBLIC AND PRIVATE
INVESTMENT PARTICULARLY INFRASTRUCTURE, AS WELL AS
PROVIDE SCOPE FOR BILATERAL INTRA-EC AID. THE PROPOSAL
ALSO CALLED FOR FORMULATING NEW METHODS TO USE BUDGETARY
GRANT INSTRUMENTS, SPECIAL GRANTS AND LOANS FROM EIB
AND OTHER EC INVESTMENT LOAN FACILITIES. THESE MEASURES
SHOULD, ACCORDING TO THE IRISH PROPOSAL, BE READY FOR
IMPLEMENTATION AT THE COMMENCEMENT OF EMS. HEALEY
CRITICIZED THE PROPOSAL FOR PUTTING TOO MUCH EMPHASIS ON
EIB AND OTHER COMMUNITY FINANCIAL INSTITUTIONS. (COMMENT:
PRESUMABLY MEANING THAT CAP AS A TRANSFER MECHANISM
SHOULD ALSO BE CONSIDERED.) IRISH PROPOSAL RECEIVED
LITTLE SUPPORT IN THE COUNCIL.

6. FRENCH ECONOMICS MINISTER MONORY TOLD REPORTERS HE
WAS GENERALLY PLEASED WITH MEETING, SINCE THE FRENCH HAD
EXPECTED MORE OBJECTIONS FROM THE U.K. HE CHARACTERIZED
THE U.K. APPROACH IN THE COUNCIL AS LESS AGGRESSIVE THAN
AT BREMEN. IN CRITICIZING THE IRISH PROPOSAL (SUPRA)
MONORY SAID FRANCE COULD NOT ACCEPT THE LINKING OF PROBLEMS
IN THE MONETARY FIELD, WHICH ARE SHORT TERM, WITH THE LONG
TERM QUESTION OF REGIONAL POLICY. THE LATTER SHOULD NOT
CONSTRAIN THE FORMER, HE SAID.

7. MONORY LISTED THOSE AREAS, MANY OF WHICH OVERLAP
ENGLISH AND GERMAN POINTS, WHICH THE FRENCH SEE AS ESSEN-
TIAL IN THE COMMITTEES' STUDY OF EMS:

- 1) THE CHOICE OF NUMERAIRE - BETWEEN THE
EUROPEAN CURRENCY UNIT (ECU) AND CENTRAL RATES
- AS IN EXISTING SNAKE.
- 2) THE RANGE OF FLUCTUATION IN THE NUMERAIRE

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PAGE 01 BRUSSE 14452 03 OF 04 251818Z

ACTION EUR-12

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LIMITED OFFICIAL USE SECTION 03 OF 04 BRUSSELS 14452

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- 3) THE NATURE OF THE EUOPEAN MONETARY FUND (EMF) -
- ITS RESERVES AND THEIR TRANSFER

- 4) THE CONDITIONS FOR ORGANIZING CONVERGENCE
- OF ECONOMIC POLICIES

- 5) THE RELATIONSHIP OF THIRD COUNTRY CURRENCIES
- WHICH, ALTHOUGH OUTSIDE THE EC, HAVE SPECIAL RELATIONS WITH IT, I.E. AUSTRIA AND SWITZERLAND

- 6) THE RELATIONSHIP OF EMF TO IMF IN LIGHT OF
- ARTICLE 4 OF THE IMF STATUTES

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PAGE 02 BRUSSE 14452 03 OF 04 251818Z

- 7) THE NEED TO AVOID FREQUENT CHANGES IN PARITY
- RATES WHILE ALLOWING FLEXIBILITY WHEN NECESSARY.

8. GERMAN PERMDEL HAS PASSED TO US TEXT OF NON-INCLUSIVE LIST OF STUDY ISSUES POSED BY FINANCE MINISTER MATTHOFER. SUMMARY OF MISSION'S INFORMAL TRANSLATION FOLLOWS: (TEXT OF ORIGINAL BEING POUCHED DEPT (EUR/RPE

AND BONN)

- 1) TWO ASPECTS OF NUMERAIRE
- -WHAT SHOULD ITS NATURE BE
- -HOW CAN EXCHANGE RATES BE CHANGED
- 2) WIDTH OF BANDS OF FLUCTUATION AND COORDINATION
- OF EXCHANGE RATE POLICIES WITH THIRD COUNTRY
- CURRENCIES
- 3) POLICIES TO BE FOLLOWED BY DEFICIT AND SURPLUS
- COUNTRIES TO REACH GREATER INTERNAL AND EXTERNAL
- STABILITY
- 4) RELATIONS BETWEEN EMS AND THE SNAKE COUNTRIES
- AND EMS AND THE IMF. IMF RULES ON EXCHANGES RATES
- MUST BE TAKEN INTO ACCOUNT.
- 5) EUROPEAN MONETARY FUND:
 - THIS FUND HAS AN IMPORTANT ROLE TO PLAY IN THE
 - DEPOSIT OF MONETARY RESERVES AND THE CREATION OF
 - CORRESPONDING AMOUNTS OF ECU. (GERMANY WOULD LIKE
 - TO REFER TO ECU THUS CREATED AS "CATEGORY I ECU").

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PAGE 03 BRUSSE 14452 03 OF 04 251818Z

- COUNCIL ALSO HAS TO THINK ABOUT THE AMOUNT OF
- RESERVE INSTRUMENTS TO BE TRANSFERRED, AS WELL
- AS THE MEANS BY WHICH THIS SHOULD BE CARRIED
- OUT. THE BREMEN PROPOSAL SPECIFICALLY CALLS
- FOR USE OF GOLD AND DOLLARS IN THIS CONNECTION.
- THE COUNCIL HAS TO LOOK IN DETAIL AT HOW RESERVES
- DEPOSITED UNDER THIS SCHEME ARE INVESTED AND
- HOW ECU THUS CREATED ARE USED. THE BREMEN
- PROPOSAL CALLED FOR THE USE OF (CATEGORY I) ECU
- TO SETTLE CENTRAL BANK NET BALANCES. THE
- BREMEN PROPOSAL ALSO CALLED FOR ANOTHER AMOUNT
- OF ECU TO BE CREATED AGAINST DEPOSIT OF NATIONAL
- CURRENCIES; GERMANY WOULD LIKE TO REFER TO THESE
- AS "CATEGORY II ECU". THE BREMEN PROPOSAL FORESEES
- USE OF THESE FOR CREDIT PURPOSES. IN THIS CONTEXT,
- GERMANY FEELS THERE SHOULD FIRST BE A STUDY OF
- THE ROLE OF SHORT AND MEDIUM TERM CREDITS AND
- THE QUESTION OF CONDITIONALITY OF CREDITS.

9. GERMAN PERMDEL SPOKESMAN, WHEN ASKED TO COMMENT ON HEALEY'S SURPRISE THAT GERMANY WAS NOT COMMITTED TO POOLING RESERVES, REPLIED:

"TO SAY THAT GERMANY IS AGAINST POOLING IS JUST PLAIN
NONSENSE."

PRESS REPORTS INDICATE GERMANS PREFER SOME KIND OF
PLEDGING OF RESERVES WHILE THE UK, NOT INSISTING ON STRICT
POOLING, IS CONCERNED THAT PLEDGING WOULD MEAN LESS
RESERVES AVAILABLE FOR INTERVENTION.

10. MISSION HAS LEARNED THAT EC MONETARY COMMITTEE
AND THE COMMITTEE OF CENTRAL BANK GOVERNORS HAVE CREATED
A JOINT HIGH-LEVEL EXPERTS GROUP WHICH WILL WORK

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PAGE 01 BRUSSE 14452 04 OF 04 251823Z
ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-10 NEA-10 NSAE-00
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LIMITED OFFICIAL USE SECTION 04 OF 04 BRUSSELS 14452

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INTENSIVELY THROUGH AUGUST AND REPORT TO THE
PARENT COMMITTEES IN EARLY SEPTEMBER TO ASSIST THE
COMMITTEES TO MAKE THE MID-SEPTEMBER REPORT REQUESTED BY
THE FINANCE COUNCIL. WE UNDERSTAND THAT AMONG THE
MEMBERS ARE VAN YPERSELE, FROM THE BELGIAN MINISTRY
OF FINANCE AND MICHAEL EMERSON OF EC COMMISSION
PRESIDENT JENKINS' CABINET.

11. BONN SUMMIT FOLLOW-UP:

IN AN ABBREVIATED AFTERNOON SESSION THE COUNCIL CLARIFIED AND APPROVED GUIDELINES SET DOWN AT BREMEN FOR COMMON MEMBER STATE ECONOMIC POLICIES. FOR THE FIRST TIME, LIMITED OFFICIAL USE

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PAGE 02 BRUSSE 14452 04 OF 04 251823Z

ACCORDING TO COMMISSION VICE PRESIDENT ORTOLI, MEMBER STATES HAVE UNDERTAKEN SPECIFIC QUANTITATIVE TARGETS FOR THEIR 1978 AND 1979 NATIONAL BUDGETS. WHILE THE GENERAL OUTLINES OF THE CONCERTED ACTION ARE EXPECTED TO BE RELEASED SHORTLY, THE PRECISE BUDGET TARGETS ARE TO BE RESTRICTED. THE BRITISH ENTERED A WAITING RESERVE PENDING APPROVAL OF THE SCHEME BY THE U.K. PARLIAMENTARY SCRUTINY COMMITTEE.

12. MATTHOFER DELIVERED A BRIEF REPORT ON THE OUTCOME OF THE BONN SUMMIT, WHICH, ACCORDING TO PERMREP SOURCES, WAS DISCUSSED ONLY BRIEFLY BY THE COUNCIL; COMMISSION VICE PRESIDENT ORTOLI ALSO PARTICIPATED IN THE DISCUSSION. HEALEY, THE ONLY MINISTER TO COMMENT TO REPORTERS ON THIS ASPECT OF THE COUNCIL AGENDA, ASSERTED THAT THE MINISTERS HAD ACCEPTED THE BONN SUMMIT CONCLUSIONS "WITH GRATITUDE." HEALEY ALSO EMPHASIZED THAT THE BONN AGREEMENTS "DO REPRESENT A FORM OF CONCERTED ACTION" WHICH WOULD NOT OTHERWISE HAVE TAKEN PLACE.

13. COMMUNITY LOAN TO ITALY:

THE COUNCIL APPROVED WITHOUT DEBATE A DECISION AND A DIRECTIVE CONCERNING CONDITIONS FOR 1978 COMMUNITY MEDIUM-TERM LOANS TO ITALY UNDER THE OVERALL \$500 MILLION COMMUNITY LOAN APPROVED IN MAY 1977 (REF B). ACCORDING TO A BRITISH PERMREP SOURCE, THE COUNCIL WAS TO HAVE APPROVED 1978 LOAN TERMS BEFORE THE BEGINNING OF THE YEAR BUT SIMPLY NEVER GOT AROUND TO DOING SO. HE ADDED THAT COUNCIL CONSIDERATION OF 1979 TERMS WILL PROBABLY TAKE PLACE THIS FALL.

14. APPLICATION OF EUA TO COMMUNITY ACTS:

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PAGE 03 BRUSSE 14452 04 OF 04 251823Z

THE COUNCIL ADOPTED A COMMON POSITION FOR THE CONCILIATION PROCEDURE WITH THE EUROPEAN PARLIAMENT CONCERNING APPLICA-

TION OF THE EUA TO COMMUNITY ACTS. OUR SOURCES POINT OUT
THAT NO FURTHER ACTION ON THIS FILE WILL BE POSSIBLE UNTIL
AFTER THE MEETING WITH THE PARLIAMENT LATER IN THE YEAR.
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